RECORD AND BRIEFS

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IN THE

Supreme Court of the United States

SAMSUNG ELECTRONICS CO., LTD., SAMSUNG ELECTRONICS AMERICA, INC., SAMSUNG TELECOMMUNICATIONS AMERICA, LLC

Petitioners,

v.

APPLE INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals For The Federal Circuit

BRIEF OF ACT | THE APP ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

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INTEREST OF THE *AMICUS CURIAE*[1]

ACT | The App Association is an international grassroots advocacy and education organization representing more than 5,000 small software application developers and information technology firms, and is the only organization focused on the needs of small business innovators from around the world. The App Association advocates for an environment that inspires and rewards innovation while providing resources to help its members leverage their intellectual assets to raise capital, create jobs, and continue to grow.

In light of the critical role that design patents and technological advancement play in enhancing competition and improving the welfare of consumers, the App Association has a keen interest in the proper functioning of the US patent system. In particular, while the dispute underlying the Question before this Court is between large companies, we submit this brief to ensure that the Court fully considers the impact that sweeping changes to design patent law will have on small business innovators that power the American economy. These innovators rely on legal clarity and certainty regarding their design patents in order to to thrive and succeed in one of the most competitive sectors of the economy.

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[1] Pursuant to Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus and its counsel made a monetary contribution to its preparation or submission. Petitioner filed a blanket consent in this appeal on May 18, 2016, and respondent provided its consent to the filing of this brief via letter dated July 26, 2016. The latter has been filed with the Clerk's office.

SUMMARY OF ARGUMENT

In less than a decade, the revolutionary rise of the software application ("app") industry, along with the unprecedented uptake of smartphones, tablets and other Internet-enabled mobile devices, has unleashed countless society-altering improvements and efficiencies to the benefit of hundreds of millions of Americans. This hyper-competitive and innovative "app economy" is powered by thousands of small businesses from across the United States that rely on the legal framework protecting their intellectual property to attain funding, grow, and create jobs. Of the different types of important intellectual property rights these innovators depend on – from trademarks to copyrights to patents – design patents play an essential and unique role by offering distinct protections of particular design elements of software that are crucial to a product's success in the marketplace.

The recovery mechanisms that Congress provided to design patent owners in 35 U.S.C. § 289 are foundational to these protections. Since the creation of design patents, courts have long upheld the clear intent of Congress in Section 289 to permit (but not require) the trier of fact to award the owner of an infringed design patent the infringer's entire profits from the article of manufacture to which the design was applied. Small businesses in the app economy, in order to commit resources to continued innovation, must be able to count on these safeguards.

The intent and statutory language of Congress in creating design patents and the "total profit" approach

are unmistakable and unambiguous. As the established approach of this Court is to take statutory meaning at its face value, and neither Petitioner nor any of its supporters offer adequate justification for a re-reading of Section 289, this Court should reject calls to reinterpret the law.

Further, no segment of the high technology industry is more concerned – or susceptible – to litigation abuses than the thousands of small software development firms that the App Association represents. The Petitioner aims for this Court to weaken Section 289's protections by introducing an apportionment approach into the determination of design patent infringement damages based on a litany of extreme hypotheticals. These alleged harms that would befall the patent system, ranging from "patent trolls" to undue double recovery and beyond, are entirely speculative. In addition, despite design patents and the precedent the Petitioner seeks to discard being in existence for over 130 years, none of these harms have materialized to date over this long period of time.

We therefore strongly urge this Court to reject the Petitioner's argument and to uphold the judgement.

ARGUMENT

I. DESIGN PATENTS ARE VITAL TO THE NASCENT APP ECONOMY

The app industry has been in existence less than a decade, and has experienced explosive growth alongside the rise of smartphones, tablets, and other Internet-connected devices, and has revolutionized the

software industry, touching every sector. ACT | The App Association, *State of the App Economy 2016* (Jan. 2016), http://actonline.org/state-of-the-app-economy-2016/. Today, the app economy is a $120 billion ecosystem that is led by United States companies. *Id.* Over eighty percent of app economy companies are startups or small businesses. *Id.* As decreasing operational costs through the use of global computing resources, such as cloud-based services, have enabled a diversity of novel and inventive business models, hundreds of millions of Americans – and billions of people around the world – today use apps in every facet of their lives, from education to finance to leisure activities and beyond. And this use will only increase: downloads in the app store in 2016 are targeted to grow to 147.3 billion and by 2020 to reach 284.3 billion. Dean Takahashi, *The App Economy Could Double to $101 Billion by 2020*, Venture Beat (Feb. 10, 2016), http://venturebeat.com/2016/02/10/the-app-economy-could-double-to-101b-by-2020-research-firm-says/.

The app economy is also responsible for creating a significant number of jobs in the United States, with salaries paid to software developers bringing in more than $114 billion to the economy. ACT | The App Association, *Six-Figure Tech Salaries: Creating the Next Developer Workforce*, (Jan. 2016), http://www.arcgis.com/apps/MapJournal/index.html?appid=b1c59eaadfd945a68a59724a59dbf7b1. While eighty-nine percent of these software developers are employed outside Silicon Valley, there are more than 223,000 unfilled job openings for software developers in the United States today. *Id.* And while in 2013 there were about 750,000 app economy jobs in the United States, in 2016 there are 1.66 million app economy

jobs. Michael Mandel, *App Economy Jobs in the United States (Part 1)*, Progressive Policy Institute (Jan. 1, 2016), http://www.progressivepolicy.org/slider/app-economy-jobs-part-1/.

As more and more devices throughout the consumer and enterprise spheres become connected to the Internet – a phenomena commonly referred to as the "Internet of Things" – the interface for communicating with these devices is likely to remain an app. Morgan Reed, *Comments of ACT | The App Association to the National Telecommunications and Information Administration regarding The Benefits, Challenges, and Potential Roles for the Government in Fostering the Advancement of the Internet of Things*, ACT | The App Association (June 2, 2016), http://actonline.org/wp-content/uploads/NTIA-Comments-on-IoT-Regulations.pdf. This app-powered ecosystem's success, reliant on continued innovation and investment in connected devices and interfaces, will hinge on the sufficiency of the legal frameworks that underlie them.

Among these frameworks, strong patent protections are heavily relied upon by small software companies to protect their inventions, grow their businesses, and create jobs. Small businesses hold 41 percent of patents in the United States and, on average, patents owned by small firms are more highly-cited than those of large firms. *See Small Serial Innovators: The Small Firm Contribution to Technical Change*, SBA Office of Advocacy (Feb. 27 2003); *see also* Anthony Breitzman & Patrick Thomas, *Analysis of Small Business Innovation in Green Technology*, SBA Office of Advocacy (Oct. 2011) http://www.sba.gov/sites/default/files/rs389tot.pdf.

Smaller firms have 16 times more patents per employee than large firms. *See id.* On average, small innovative businesses with fewer than 500 employees have 27 patents per 100 employees, while large business have 1.6 patents per 100 employees. *See id.*

Patenting also plays a substantial role for high-technology small business startups in securing a competitive advantage from their innovations. *See* Ronald J. Mann & Thomas W. Sager, *Patents, Venture Capital, and Software Start-Ups*, 36 Res. Pol'y 193, 194 (2007). Start-ups that file at least one patent prior to applying for venture capital funding on average obtain 51.7% more funding from venture capitalists than start-ups who do not file. Habio Zhou et al., *Patents, Trademarks, and Their Complementarity in Venture Capital Funding*, Technovation, Jan. 2016, at 14-22 [hereinafter Zhou, *Patents*]. With patents, small businesses can also use that protection to attract investment. Investors, understanding how patents are used to secure businesses, often consider how firms have protected their IP before deciding to invest. Patents can serve as "quality signals for startup investors," allowing small businesses to demonstrate their innovations and their commitment to protecting that investment. Stuart J.H. Graham et. al., *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 24 Berkeley Tech. L.J. 1255, 1303 (2009) [hereinafter Graham, *High Technology*].

Further, as financial markets have, over time, gained the ability to attain and use relevant information about a business' assets and future cash flow, patent-related information has grown in importance. *See* Thoma Grid, *Patent Management and*

Valuation: The Strategic and Geographical Dimension (2016) (ebook) [hereinafter Grid, *Patent Management*]. The valuation of a small business holding a design patent is therefore highly dependent on the validity and enforceability of that patent. Further, small business software developers must seek capital injections from a variety of sources to hire needed employees and to grow, and when seeking these injections, a valuation of the business' assets are a threshold issue. *See* Zhou, *Patents* at 14-22; *see also* Peter S. Menell, Promoting Patent Claim Clarity (UC Berkeley Pub. Law Research Paper No. 2171287, 2012), available at http://ssrn.com/abstract=2171287.

Although there can be different approaches to product development, most, if not all start with an idea, are researched, transition into a conceptualization, progress into the prototype phase, and finally are produced and brought to the marketplace. *See* Jennifer L. Case, *How the America Invents Act Hurts American Inventors and Weakens Incentives to Innovate*, 82 UMKC L. Rev. 29, 32 (2013) [hereinafter Case, The *America Invents Act*]. In this process, not only are functions developed, but so are innovative and novel appearance characteristics associated with brand recognition. *See* Colleen V Chien, *Patent Assertion and Startup Innovation*, New America Foundation, Open Technology Institute White Paper (2013), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321340 [hereinafter Chien, *Patent Assertion*]; see *also* Graham, *High Technology*; *see also* Grid, *Patent Management*. And in the hyper-competitive app economy, ease of use and other aesthetic

characteristics can easily represent the success or death of a product. In this way, design patents on recognizable features provide vital protections to "aspect[s] given to [an] article of manufacture" that "give[] a peculiar or distinctive appearance to the manufacture." *Gorham Co. v. White*, 81 U.S. (14 Wall.) 511, 524-25 (1872). Design patent holders are further allowed to update their innovations through filing for additional design patents to hone the representation to further differentiate themselves from competitors. In this way, design patents are an incentive to create articles of manufacture in new and efficient ways. *See* Abby J. Queale, *Transcript of Presentation the Design Patent: A Sleeping Giant?*, 16 Fla. Coastal L. Rev. 139, 143 (2014).

Design patents are distinct, but complementary, to other intellectual property protections (utility patents, trademarks and copyrights). For example, design patents offer app developers the ability to compete through the patenting of graphic user interfaces (GUI). These GUIs permit app developers to patent static or animated graphics which act as the logos and branding of these small business, which in turn are intrinsic to the performance of an app, shaping the end user's acceptance of and experience with it. *See* Michael Risch, *Functionality and Graphical User Interface Design Patents*, 17 Stan. Tech. L. Rev. 53, 59-63 (2013). Therefore, strong intellectual property protection of designs patents over such aspects as GUIs are necessary to protect businesses and consumers alike. *See id.*

Design patents, protecting the appearance given to an article of manufacture, predate the app economy by

over 100 years, yet they play an absolutely integral role in the competition and innovation that drives the app economy today, particularly for small business software development firms. However, "[w]ithout some ability to recuperate their investment of time and money, startups and individual inventors will stop turning their bright ideas into products that benefit society." *See* Case, *The America Invents Act* at 41.

II. THE COURT SHOULD NOT REINTERPRET THE CLEAR INTENT OF CONGRESS IN SECTION 289

Section 289 states that a person who applies a patented design to an "article of manufacture for the purpose of sale" or who sells "any article of manufacture to which" the patented design has been applied, "shall be liable to the [patent] owner to the extent of his total profit." 35 U.S.C. 289. Further the "article of manufacture" will not always be the finished product that is sold in commerce. An "article" is something that could be a part of other things or an object by itself. Dictionary.com, http://www.dictionary.com/browse/article (last visited August 4, 2016). To be considered manufactured, "[t]here must be transformation; a new and different article must emerge 'having a distinctive name, character, or use." *American Fruit Growers v. Brogdex Co.*, 283 U.S. 1, 13 (1931).

Section 289 remedies exist in addition to the other remedies available under 35 U.S.C. § 284, which allows for an award of "damages sufficient to

compensate for the infringement, but in no event less than a reasonable royalty..." 35 U.S.C. § 289. As discussed on the record, neither Section 289 nor precedent from this Court prohibits concurrent recovery under Sections 284 and 289. The Ass'n of The Bar Of The City Of NY Br. 4-6. Despite the petitioner's argument that Section 289 allows for double recovery, the statute explicitly rejects this idea. 35 U.S.C. § 289 ("[n]othing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement."); *see also Catalina Lighting, Inc. v. Lamps Plus*, Inc., 295 F.3d 1277, 1291 (Fed. Cir. 2002).

When Congress designed the remedy now enshrined in Section 289, it was responding to the specific problem of apportioning the value of a product derived from a protected design. *See* S. Rep. No. 49-206, at 1 (1886). Congress recognized that requiring design patent holders to attribute damages precisely and specifically to the patented design would leave them "without a remedy" in the vast majority of cases of infringement. *Id.* at 1; *see also, e.g., Nike Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1442–43 (Fed. Cir. 1998) (discussing the history of the Patent Act). Congress therefore enacted the "total profit" remedy to avoid the inefficiencies and unintended outcomes associated with requiring design patent owners to apportion their damages. *See, e.g., Dobson v. Dornan*, 118 U.S. 10, 17 (1886).

By creating the "total profit" remedy in 1887 and by retaining that remedy through the past century despite numerous revisions to the Patent Act, Congress deliberately sought to retain this disgorgement remedy for design patents. *See* Leahy–Smith America Invents Act, PL 112-29, Sept. 16, 2011, 125 Stat 284 (overhauling patent law without amending the total profit rule for design patent damages); *see also Bergstrom v. Sears, Roebuck & Co.*, 496 F. Supp. 476 (D. Minn. 1980) ("In 1946, and again in 1952, Congress left the 'total profit' remedy for design patent infringement untouched, even while eliminating infringer profits as a remedy for infringement of utility patents and removing the requirement of knowing infringement."); *See generally* United States Statutes at Large, 49 Cong. Ch. 105, February 4, 1887, 24 Stat. 387. Further, the application of apportionment principles in design patent cases has been specifically rejected by courts on a number of occasions. *See, e.g., Nike*, 138 F.3d at 1442–43; *Bergstrom*, 496 F. Supp. At 476.

This Court "ordinarily resist[s] reading words or elements into a statute that do not appear on its face." *Bates v. United States*, 522 U.S. 23, 29 (1997). It is clear from the legislative history and from statutory text that Congress did not intend to require design patent damages to use apportionment in the calculation of damages. Neither Petitioner, nor any of its supporters, offer sufficient grounds for courts to take a different reading of Section 289, whether based on the history of Section 289 or on the text of the statute. "Any re-calibration" of that remedy "remains

in [Congress's] hands." *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 114 (2011).

III. A WEAKENING OF THE SAFEGUARDS IN SECTION 289 WOULD CAUSE HARM TO SMALL SOFTWARE DEVELOPERS AND THE APP ECOSYSTEM, AND THE COURT SHOULD REJECT SPECULATIVE HARMS RAISED BY THE PETITIONER AND PETITIONER'S AMICI

Design patent protections in Section 289 were carefully shaped by Congress over 100 years ago and are, today, essential to small business technology developers. Infra at 9-10. However, the record contains claims from Petitioners and their amici urging this Court to undercut Section 289, making arguments alleging that upholding the Federal Circuit's interpretation of Section 289 will damage the startup ecosystem, chill innovation, and facilitate "patent holdup" and "patent trolls," among other harms. Representing the global community of app developers, The App Association disagrees with these speculative claims, and urges this Court to disregard them. First, we believe that introducing apportionment into Section 289 remedies would unreasonably devalue design patents, threatening the viability of small business app innovators. Further, upholding the established protections of Section 289 have no linkage to abusive litigation tactics such as those employed by "patent trolls."

A. Reducing Section 289's Clear Protections Against Design Patent Infringement Will Impede Small Business Innovators' Ability to Grow and Hire

Small business app makers, almost universally, are operating on borrowed time. They face financial, time, and other resource constraints yet must work to grow. The valid design patents they hold are their lifeblood, and provide an avenue to seek new financing, hire new talent, grow into new markets, differentiate themselves, and prevent theft of their intellectual property.

By weakening the established remedies in Section 289 and introducing an undefined apportionment approach to such damages, the valuation of design patents will unquestionably decrease, as the recourse for infringement of these patents will be uncertain. Even supporters of the Petitioner discuss the uncertainties and complexities that would arise in such an event. Public Knowledge et al. Br. 16-20. Further, the development of such a new and sweeping precedent would directly conflict with Congressional intent and text of Section 289, which was intended to avoid the uncertainty of an apportionment approach for this class of patents. *See infra* at 9-12.

For larger businesses, this may be overcome through shifting of internal investments and cost (or other means). However, for small business software developers that face razor-thin margins and high competition, the implications of such a change can represent the difference between growth and winding

down. Simply put, these smaller entities would find tightened funding mechanisms available to them due to the lessening of the value of their design patents. We therefore urge this Court to consider the impact of reducing Section 289's clear guarantees to design patent owners when making its ruling in this case.

B. Claims That Upholding Section 289's Clear Protections Against Design Patent Infringement Will Create Abusive Patent Litigation by "Patent Trolls" and "Patent Holdup" are Baseless

No segment of the technology industry better understands the dangers of abusive litigation than small software developers that hold patents. It is estimated that legal costs can range from $500,000 to $3 million per suit, or $500,000 per claim at issue, for each party involved in patent litigation. *See* American Intellectual Property Law Association, *Report Of The Economic Survey* (2015) (ebook). Further, the rates of settlement of patent cases are approximately 80 percent, rather than the commonly assumed rate of 95 percent litigation settlement. *See* Jay P. Kesan & Gwendolyn Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 Wash. Univ. L. Rev. 237, 259 (2006). Naturally, small businesses are more vulnerable to the high costs of litigation, and in addition to costs can face related delays in hiring, and difficulty in making timely business line pivots. *See* Chien, *Patent Assertion*.

As discussed above, the app economy relies upon the consistent and clear application of patent law generally, and particularly for design patents. Policymakers have long attempted to remedy the implicit stress between reducing the exploitations of "patent trolls" while ensuring that genuine patent owners can safeguard their intellectual property rights. Grace Heinecke, *Pay the Troll Toll: The Patent Troll Model Is Fundamentally at Odds with the Patent System's Goals of Innovation and Competition*, 84 Fordham L. Rev. 1153, 1156 (2015). Regardless of how one defines a "patent troll,"[2] this Court should foster innovation and competition by ensuring that it does not punish legitimate intellectual property owners who have relied on and strive to comply with the letter and spirit of the Patent Act. *See, e.g.*, James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev 387, 396 (2014). We urge this Court to accomplish this goal by providing reinforcement to – not an unsubstantiated reinterpretation of – Congress' intent in Section 289. Without this clarity, small business design patent owners on whose survival the viability of their design patent hinges very well may face an "end of life" scenario when its design patents' value is diminished through negative impacts on the ability to attain new capital and create jobs, as well as in recovering just damages for infringements on its design patents.

Petitioner and several of its supporters allege that the Federal Circuit's application of Section 289 would

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[2] To date, there is no definitive or widely-held view on what constitutes a "patent troll."

damage the startup ecosystem by encouraging a "cottage industry of opportunistic litigation" in the design patent space. *See, e.g.* Public Knowledge Br. 16-21. Supporters of the Petitioner also claim that "patent trolls" would cause this storm of litigation to be enabled through the upholding of the Federal Circuit's application of Section 62. *See, e.g.* Engine Advocacy Br 7-10. These claims are unsubstantiated and wildly speculative, and should be disregarded by this Court. In reality, the certainty provided by Section 289 is foundational to design patent owners, particularly to small businesses, and will help to curb the same "patent trolls" that this Court has stated "impose a harmful tax on innovation." *Commil USA, LLC v. Cisco Systems, Inc.*, 135 S. Ct. 1920, 1930 (2015).

Further, we find the connection by Petitioner and several of its supporters of "patent trolls" to design patents to be totally unsupported, as well as unaligned with the real-world experiences of innovative startups and small businesses. In the experience of the app developer community, the assertion of patents by "patent trolls" is one specific to utility patents, not design patents. Rather, in the context of design patents, app developers are primarily concerned with the potential that protection afforded by design patents will be eroded, enabling copycats to steal their innovations and undermine their businesses. The curtailing and obscuring of Section 289 damages by this Court would weaken the disincentive to violate design patents by upending established precedent regarding the responsibilities of justly-deemed patent infringers. This would prod infringement of design patents closer towards being regarded as another cost

of doing business," welcoming a gaming of the system by these patent trolls.

And based on Petitioners' reasoning, the Federal Court's application of Section 289's "total profits" rule, since it is well-established already, should have already spawned this "cottage industry of opportunistic litigation." *See* Pet. App. at 13a-14a. Further, as an example of this storm of litigation, Petitioners and their supporters claim that a patent infringer's total profits can be recovered more than once, yet fail to cite adequate Court precedent, Section 289 itself or a single example of this happening over the history of Section 289's application. *See id.* These particular aspects illustrate the hypothetical nature of the Petitioner and its supporters' non-legal arguments, and highlight why this Court to ignore these unsupported speculations.

Finally, while these and other speculative harms are explored by the Petitioner and its supporters, they go beyond the Question taken up by this Court and raise policy advocacy points appropriate for consideration in the legislative process, not before this Court. We urge this Court to agree that "[i]t is for Congress to determine if the present system of design and utility patents is ineffectual." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* , 489 U.S. 141, 167-168 (1989).

CONCLUSION

The judgement be affirmed.

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